UI Tax Rate Calculations and Explanations

$$\frac{\textbf{Benefit Costs}}{\textbf{Taxable Wages}} \times \textbf{Reserve Factor} + \textbf{Social Rate} = \textbf{Overall Tax Rate}$$

Benefit Costs: Unemployment benefits paid to former employees that are charged to the employers account for the previous four fiscal years ending June 30th.

Taxable Wages: Total taxable wages reported by the employer for the previous four fiscal years ending June 30th.
(i.e. – taxable wage base for 2006 = $24,000 per employee, for 2007 = $25,400)

Reserve Factor: A multiplier (factor), which is adjusted up or down on an annual basis depending on the overall health of the UI Trust Fund balance. That formula is based on maintaining a balance in the Trust Fund that can fund 17 to 19 months of benefits during a severe economic downturn. The Reserve Factor is set at 1.0 when the Trust Fund balance falls between the Maximum and Minimum Adequate Reserve levels. The Reserve Factor is expected to be reduced from 1.25 to 1.05 for 2007 tax rates.

Social Rate: This rate is determined by benefit costs that cannot be charged to specific employers and is added to the UI tax rate for all employers; this is the minimum tax rate available. Over half of all employers have the minimum rate in 2007 (.003). The social rate is calculated using "social costs" for the previous four fiscal years.

Examples of the most common social costs are:

- Benefit Costs from which employers have been granted relief of charges (54%)
- Benefit Costs of employers who have gone out of business with no successor (38%)
- Benefit Costs, which exceed the calculated maximum tax rate of 9.4% (5%)
- Uncollectible Benefit overpayments (3%)

(Prepared by Bill Starks, UI Director 12-1-2006)